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# The Importance of Ideas: An A Priori Critical Juncture Framework

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## Introduction

Institutionalists (for example, Christensen, 1997; Gorges, 2001; Mahoney, 2000; Pierson, 2000; Steinmo, 1989; Thelen and Steinmo, 1992) have regularly argued that crises result in abrupt institutional change. Often, crises are pointed to as the starting points in a sequence of change, as in path dependence. Consequently, scholars' interpretations of institutional change have resulted in the past's division into periods of normalcy and critical junctures.

But Pierson argues that critical junctures, "a concept needed in underpinning the analyses of temporal processes, have received only limited discussion" (2004: 5–6). Thelen also points to the lack of sophisticated tools for understanding change (1999: 388). These arguments relate to the idea that historical institutionalism has tended to concentrate on the institutional, rather than the historic, side of the approach.

Recently, historical institutionalists have moved from critical junctures to seeking new means to demonstrate how institutions are remade over time (Clemens and Cook, 1999; Pierson, 2004; Thelen, 1999, 2000). Consequently, the critical junctures concept, an only half-developed approach as it is entirely postdictive, is being consigned to academic

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**Dedication:** This article is dedicated to the memory of Dr. Peter Fitzgerald, a valued friend and colleague, missed by all.

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history. Simultaneously, with some scholars declaring events critical junctures, watersheds or other turning point terms without the provision of the least evidence, the concept is being rendered meaningless.

In the past, critical junctures have been examined by means of unwieldy frameworks (Collier and Collier, 1991), or counterfactual analysis (Fearon, 1991; 1996). Of late, Hogan sought to develop a framework with greater rigour (2005; 2006). But this involved narrow, in many instances case specific, criteria, along with arbitrary standards. Scholars have yet to develop a framework for examining critical junctures that is rigorous and widely applicable. All previous approaches have also lacked a predictive element. However, this paper seeks to develop a rigorous, widely applicable framework for examining critical junctures, one which incorporates a predictive element.

Our hypothesis is that a critical juncture in macro-economic policy consists of three stages: macro-economic crisis, ideational change and radical change in economic policy. The time periods concern rapid changes in macro-economic policy, as this is synonymous with the concept of critical junctures. Through the study of five potential macro-economic crises in two countries, the paper will develop a set of *a priori* criteria for examining potential critical junctures. The reason for so many cases is, as Hall reminds us, broad concepts deserve exploration in many contexts and no single case can fully resolve such issues (1993: 277). The paper will show that although there were five potential macro-economic crises not all were actual crises, and not all actual crises resulted in critical junctures in macro-economic policy.

The paper will explain what differentiates a macro-economic crisis that results in a critical juncture in economic policy from one that does not. This differentiating factor constitutes the predictive element. Once identified, it will be possible in future to look at any country experiencing economic difficulties, test to see if these difficulties constitute a crisis, test for the differentiating factor's presence, and then declare if there will be a critical juncture in that country's macro-economic policy. This would remove the longstanding element of contingency associated with critical junctures by path dependence scholars (Mahoney, 2000: 513) and eliminate the necessity of having to wait decades to conclude whether an event was a critical juncture. While this approach focuses on macro-economic crisis, and its consequences for macro-economic policy, the framework could be used to examine a range of crises and their impact on various policies.

The first section discusses the critical junctures literature, focusing upon the frameworks developed, issues studied, and the concept's post-dictive nature. The second section sets out the countries chosen for examination, and the time frame of study. The third section sets out and tests criteria for identifying macro-economic crisis, ideational change and

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**Abstract.** This paper sets out an improved framework for examining critical junctures. This framework, while rigorous and broadly applicable and an advance on the frameworks currently employed, primarily seeks to incorporate an a priori element. Until now the frameworks utilized in examining critical junctures were entirely postdictive. Adding a predictive element to the concept will constitute a significant advance. The new framework, and its predictive element, termed the “differentiating factor,” is tested here in examining macro-economic crises and subsequent changes in macro-economic policy, in America and Sweden.

**Résumé.** Cet article propose un cadre amélioré pour analyser les conjonctures critiques. Bien que rigoureux, largement applicable et représentant en soi une avance sur les modèles actuellement utilisés, ce cadre cherche principalement à incorporer un élément a priori. Jusqu’ici les cadres servant à l’étude des conjonctures critiques étaient entièrement fondés sur la postdiction. L’ajout d’un élément prédictif constituera une avance notable. Cet article examine la validité du nouveau cadre et de son élément prédictif, appelé «facteur de différenciation», à la lumière des crises macro-économiques en Amérique et en Suède et des changements de politique macro-économique qu’elles ont entraînés dans leur sillon.

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macro-economic policy change. The conclusion highlights the findings and significance of the paper.

## **1. The Characteristics and Uses of the Critical Junctures Approach**

Critical junctures are regarded as the trigger events that set processes of institutional or policy change, in motion. The literature sees critical junctures resulting in the adoption of an institutional arrangement from among alternatives (Mahoney, 2000: 512). Thereafter, the pathway established funnels units in a particular direction, with the consequence of increasing returns and the resultant irreversibilities (Mahoney, 2003: 53; Pierson and Skocpol, 2002: 9). However, Pierson argues that institutional stability can result from non-path dependent causes, implying that critical junctures should not be defined by the assumption that they initiate path dependent processes (2004).

For some, the duration of a critical juncture may be brief, while for others it can constitute an extended period of reorientation (Mahoney, 2001). The analysis of critical junctures has been influential in comparative politics. Collier and Collier developed a framework for determining critical junctures in national development in Latin America (1991). Their definition does not imply institutional innovation occurs in short episodes (Thelen, 2004: 215). For Mahoney, analyzing the nineteenth-century liberalization of Central America, critical junctures took decades to come about, while their effects were sometimes of shorter duration (2001). Hogan questioned whether these periods could be called critical junctures or were instances of incremental change (2005, 2006), labelled by Streeck and Thelen as periods of conversion (2005).

However, critical junctures have also been employed in research into short- term change. Garrett and Lange showed that electoral landslides

create critical junctures by producing mandates for policy change (1995: 628). Casper and Taylor employed critical junctures in analyzing when authoritarian regimes were vulnerable to liberalization (1996). Examining the 1934 Reciprocal Trade Agreements Act, Haggard argued that economic depression brought into question existing institutions, resulting in dramatic change (1988: 91). Karl used the concept in analyzing the “petro-states” problematic development paths (1997); Gal and Bargal used it to analyse occupational welfare in Israeli (2002), while Vargas examined the Chiapas conflict (2004). Hogan remoulded the framework to examine change in trade union influence over public policy (2005; 2006).

Critical junctures are regarded as pointing to the importance of the past in explaining the present. They “suggest the importance of formative moments for institutions and organizations” (Pierson, 1993: 602). Consequently, the studies above are postdictive. But, if focusing on the formative moments of institutions is critical, only being able to do so retrospectively constitutes a significant weakness for the concept, something this paper seeks to remedy.

## **2. The Countries Selected for Examination**

America and Sweden were selected for examination based upon most similar and most different criteria. For most similar we chose the criteria of having long-standing democracies and advanced capitalist states. They are most different according to Lijphart’s categories of majoritarian and consensual democracies (1999), allowing us to control for varying institutional arrangements. Both countries’ economies are very different, while their performances, and the policies governing them, have varied dramatically. Thus, their similarities ensure “the contexts of analysis are analytically equivalent to a significant degree,” while their differences place “parallel processes of change in sharp relief” (Collier, 1997: 40). We examine potential crises in their economic performance between 1945 and 2000.

### **3.1 The Identification of Macro-economic Crisis**

“An important part of the literature on critical junctures views them from the perspective of crises, placing particular emphasis on the tensions leading up to the critical juncture” (Collier and Collier, 1991: 32). “Traditionally, students of institutional change focused on the importance of crisis” (Cortell and Peterson, 1999: 184). Exogenous shock is often cited as an explanation for policy change (Greener, 2001; Golob, 2003: 373). Here the crises being searched for are macro-economic. “Most scholars agree that severe recessions make significant structural changes possible

because they render politics highly fluid" (Garrett, 1993: 522). Governments and political parties—and their economic policies—are exposed to the impact of economic fluctuations. A macro-economic crisis can call into question existing institutions, policies or even state projects, consequently triggering change (Tilly, 1975).

Macro-economic crises are rare events, rendering definition and identification difficult (Yu et al., 2006: 439). Consequently, how do we identify a macro-economic crisis? Stone argues that a situation does not become a problem until it is seen as amenable to control (1989: 299). But, if it is controllable it must be measurable; otherwise, how would we know if we are controlling the situation? Thus, a macro-economic crisis must be quantifiable to some extent. Kaminsky et al. (1998) and Berg and Pattillo (1999) advocated the use of individual variables when quantifying currency crises, a concept equally applicable to macro-economic crises. Pei and Adesnik developed a broader range of criteria for identifying macro-economic crises: an annual inflation rate greater than 15 per cent, stagnant or negative annual gross domestic product (GDP) growth, and historians and other analysts' descriptions of significant deterioration in economic and financial circumstances (2000: 138–39). For Garuba (2006: 21), Kwon (2001: 105), and Solimano (2005: 76) a macro-economic crisis can be seen in general indicators and perceptions of growth, inflation, employment creation, poverty reduction and their combined socio-psychological burden on society. However, unlike Yu et al. (2006), we are not seeking to forecast macro-economic crises, merely to identify them.

As Pei and Adesnik note, defining any macro-economic downturn as a crisis requires subjective and objective deliberations (2000: 139). Consequently, González suggests the adoption of a multifaceted approach (2005: 93), as these are situations in which failure is identified and widely perceived (Hay, 1999: 324). Agents must diagnose the crisis and impose on others their notion of it before collective action to resolve uncertainty can take meaningful form (Blyth, 2002: 9). This fits with Hay's perception of crisis as the triumph of a simplifying ideology (1999: 321). Consequently, we develop a broad range of observable implications, which include, and build upon, the objective and subjective criteria of previous studies. These implications accept that a macro-economic crisis must constitute a severe economic low point.

### *Macro-economic crisis*

The first three observables, largely quantitative in nature, are derived from Pei and Adesnik (2000), and Solimano (2005). However, we employ a lower inflation threshold than Pei and Adesnik, as the developed states

studied here are not as susceptible to severe inflationary fluctuations as their developing counterparts.

The latter observables are partly derived from Pei and Adesnik's recommendation to examine historians and other analysts' descriptions of economic deterioration to determine if there is a crisis (2000). However, they also draw upon the work of Garuba (2006), Kwon (2001), and Solimano (2005) whose measures for economic crisis are more qualitative, and contextual, than quantitative.

- 01.** If the main economic indicators reached decade-long lows, the economy may have been in crisis.
- 02.** If annual inflation is greater than 10 per cent, the economy may have been in crisis.
- 03.** If annual GDP growth is stagnant or negative, the economy may have been in crisis.
- 04.** If opinion polls find the public regarded the economy in crisis, the economy may have been in crisis.
- 05.** If the national media regarded the economy in crisis, the economy may have been in crisis.
- 06.** If economic and political commentators regarded the economy in crisis, the economy may have been in crisis.
- 07.** If the central bank regarded the economy in crisis, the economy may have been in crisis.
- 08.** If both domestic and international organizations (Organisation for Economic Co-operation and Development (OECD)) monitoring economic performance regarded the economy in crisis, the economy may have been in crisis.
- 09.** If elected representatives regarded the economy in crisis, the economy may have been in crisis.
- 010.** If government pronouncements on the economy were consistent with a crisis management approach, the economy may have been in crisis.

As space permits only the briefest review of the material examined, we concentrate on the most likely macro-economic crises identified.

### *The United States of America*

Here we examine three possible macro-economic crises.

According to the OECD, by the late 1950s America was suffering from a large deficit (1962: 5). *Time International* stated that the economy was in recession (1959: 14). The rate of unemployment stood at 5.5 per cent, or 3.7 million. For the Labor Department, anything above 3 million indicated economic weakness. Inflation was at 1.5 per cent in

1959 and 1.3 per cent in 1960, while GDP growth fell from 7.2 per cent to 2.4 per cent in 1960 (Mitchell, 1998). "By 1960 economists argued that the economy was slumping dangerously" (Heath, 1975: 63). The Secretary of the Treasury admitted as much to the IMF (The Economist, 1960: 42). Democratic presidential candidate Kennedy observed that in 1959 America experienced the lowest growth of any major industrialized country. "You don't see a burgeoning economy," agreed his Republican rival Nixon (Time International, 1960: 13). However, these factors were not sufficient to constitute an economic crisis.

For the OECD, the Carter administration's final year was characterized by high interest rates, and rising unemployment (1982: 9). Compounding matters, the National Bureau of Economic Research declared the economy in recession (Time International, 1980: 48). When the President invoked the Credit Control Act, it resulted in reduced borrowing and a steep decline in growth (Byron, 1980a: 44). By 1979, inflation stood at 11.3 per cent, rising to 13.5 per cent in 1980, while GDP growth struggled at 2.4 per cent in 1979, before slumping to -0.3 per cent by 1980 (Mitchell, 1998). By the second half of 1980 the administration's responses to the recession smacked of crisis management. Carter's Economic Renewal Program designed to stimulate the economy was severely criticized (Cowan, 1980: 12). By November, Fed Chairman Volcker admitted there was a recession (Berry, 1980: B1). In restraining the growth of the money supply, the Fed pushed interest rates to their highest levels in a century, reducing consumer borrowing and sending spending into decline (Time International, 1980: 50). "Through the actions of the Reserve Board and the administration, the economy was inadvertently plunged into the kind of recession the White House had been trying to avoid" (Dark, 1999: 120).

By 1992 the economy was in serious trouble (Caple, 1991: 3). In December 1990, Fed Chairman Greenspan called the downturn "meaningful" (Time International, 1990: 50). The OECD (1993: 18-29) showed that the economy had shrunk 1.2 per cent in 1991, while the budget deficit reached \$290 billion in 1992, with federal debt surpassing \$4 trillion. Inflation ran at 2.9 per cent in 1991 and 1992, while GDP growth was -0.9 per cent in 1991 before rising to 2.7 per cent in 1992 (Mitchell, 1998). *The Wall Street Journal* warned the deficit was out of control (1992: 10), leaving no room to stimulate the economy (Gwynne, 1992: 32). The Gulf War, the savings and loan bailout, defence-industry contraction, real estate depression and soaring welfare payments wreaked havoc with budget-balancing efforts (Gwynne, 1992: 31). Unemployment peaked at 7.8 per cent in mid-1992. President Bush admitted that his administration had botched the recession (Carlson, 1992: 28). This downturn became the longest recession since the Great Depression (Gwynne, 1992: 31).



### *Sweden*

Here we examine two potential macro-economic crises.

The recession that began in the mid 1970s proved persistent. The OECD (1982: 49) described the economy in 1982 as in difficulty. Government's expenditures had grown, while revenues stagnated. Budget deficits were financed by international borrowing (Siven, 1984: 17), and, as a consequence, the debt to GNP ratio increased by 250 per cent in six years. In 1981 inflation reached 12.1 per cent, while GDP contracted by 0.6 per cent (The Economist, 1982: 41). Unemployment reached 3.1 per cent in 1982, its highest level since 1945, a political scandal in a country accustomed to full employment (Apple Jr., 1982: 3). However, economists believed unemployment would have been closer to 16 per cent if it included the jobless in training programs, workers forced into early retirement and those who had given up looking for work (Time International, 1982: 32). The *New York Times* argued that the Swedish economy had been hobbled by foreign debt, low investment and an adverse balance of payments (Prokesch, 1991: 1). The economy was in crisis.

Although prosperity returned during the 1980s, by the 1990s, Sweden was suffering further economic malaise. Attempts to maintain industrial competitiveness, an enormous public sector and full employment resulted in spiralling inflation (The Economist, 1991: 61). The Bank of International Settlement observed that Sweden's 10.5 per cent inflation rate was the worst of the ten leading industrialized countries (The Times, 1991: 4). In 1990 prices rose by 6.6 per cent, against the OECD average of 4.5 per cent (1992: 12). GDP contracted by 1.1 per cent in 1991 and 1.4 per cent in 1992 (Mitchell, 1993). That autumn, the real estate market collapsed, putting the banking system in jeopardy (Hill, 1991: 2) and threatening the country's financial infrastructure (Martin, 2000: 246). Unemployment increased from 1.7 per cent in 1990 (Benjamin, 1991: 21) to 5.3 per cent in 1992. The current budget deficit, public sector borrowing requirement, and national debt, all rose as the economy contracted (The Economist, 1991: 38). Linton stated that "this was the first time the [Swedish] economy contracted since 1942" (1991: 5). "Sweden is in a very severe recession. There is crisis in every part of the public sector," said Anders Aslund, Sweden's leading economist (Kaslow, 1991: 3).

Of the five potential macro-economic crises, four constituted authentic crises, satisfying all, or most, of the observable implications. As can be seen in Table 1, America 1959–1961 satisfied only one observable implication, and thus could not be a severe economic low point. The next section will examine the four macro-economic crises to see if ideational change occurred at these times, and, central to our hypothesis, if policy change followed ideational change.

TABLE 1  
The Identification of Macro-economic Crisis

| Observable Implications   | America       |               |               | Sweden        |               |
|---|---------------|---------------|---------------|---------------|---------------|
|   | 1959–<br>1961 | 1979–<br>1981 | 1990–<br>1992 | 1980–<br>1982 | 1990–<br>1992 |
| <b>O1.</b> Were the main economic indicators at decade-long lows?                                       |               | X             | X             | X             | X             |
| <b>O2.</b> Was annual inflation greater than 10 per cent?   |               | X             |               | X             | X             |
| <b>O3.</b> Was GDP growth stagnant or negative?   |               | X             | X             | X             | X             |
| <b>O4.</b> Did the public regard the economy in crisis?   |               |               | X             |               | X             |
| <b>O5.</b> Did the media regard the economy in crisis?  | X             | X             | X             | X             | X             |
| <b>O6.</b> Did economic and political commentators regard the economy in crisis?                        |               | X             | X             | X             | X             |
| <b>O7.</b> Did the central bank regard the economy in crisis?   |               | X             | X             | X             |               |
| <b>O8.</b> Did domestic/international organizations regard the economy in crisis?                       |               | X             | X             | X             | X             |
| <b>O9.</b> Did elected representatives regard the economy in crisis?                                    |               | X             | X             | X             | X             |
| <b>O10.</b> Were government pronouncements on the economy consistent with a crisis management approach? |               | X             | X             | X             | X             |
| <b>Economic Crisis</b>  |               | <b>X</b>      | <b>X</b>      | <b>X</b>      | <b>X</b>      |

### 3.2 Identification of Ideational and Policy Change

A crisis presents new problems, as previous policies are discredited due to their implication in, or inability to right, the situation (Levy, 1994). Economic crises can have a great impact, shaping a range of alternatives, but they will not determine policy choices. These remain “firmly centred in domestic political and ideational processes” (Golob, 2003: 375). Ideas are crucial in determining policy choices due to uncertainty over the basic workings of the macro-economy, the difficulties of interpreting policy effectiveness and the lack of agreement over what constitutes “correct” macro-economic policy (McNamara, 1998: 57). When an economic model is in flux, windows of opportunity will appear in which change agents will contest the viability of the prevailing paradigm (Kingdon, 1995). They will present new ideas to replace the ones upon which existing policy is based. Thus, ideas influence policy by acting through particular actors (Berman, 1998: 22). We contend that significant policy change is dependent upon agents of change reaching a broad consensus upon, and subsequently consolidating around, one particular set of new ideas. These ideas will determine the path of subsequent policy, as policy makers work within a framework of ideas and standards that specify not only the goals of policy, but the instruments to be used to achieve

these goals and the very nature of the problems they are meant to be addressing (Hall, 1993: 279).

The period of flux outlined above is similar to Blyth's "discursive phase," where "agents interested in reforming existing distributional arrangements contest the definition, meaning and solution to the problems identified by opposing economic ideologies" (1997: 234). It is also analogous to what Oliver and Pemberton (2004: 419) describe as the "institutional battle." "Economic ideas facilitate the reduction of...barriers by acting as coalition-building resources among agents who attempt to resolve the crisis" (Blyth, 2002: 37). Thus, ideas are the casual mechanisms of change in any critical juncture (Golob, 2003).

Once agents coalesce around a set ideas purporting to offer a solution to current economic woes, and an alternative to the current paradigm, *they* will attempt to "inject" these into the policy domain. We contend there are three groupings of change agents. The most important agents are what Dahl (1961) termed "political entrepreneurs." Political entrepreneurs, according to Sheingate (2003: 188–90), "exploit moments of instability" and "invest resources in the creation of a new policy, a new agency or new forms of collective action." They are similar to Kingdon's broader concept of policy entrepreneurs (1995), which constitute our second group of change agents. Policy entrepreneurs encompass civil servants, technocrats, academics, economists and interest groups, and so forth, who engage in policy innovation, and have access to decision makers. However, Sheingate highlights the role of political leaders as political entrepreneurs: in times of crisis, "uncertainty makes possible the speculative, entrepreneurial quality of everyday politics ... as politicians engage in a steady search for political advantage" (2003: 192). Thus, in a crisis, a political leader, usually an opposition leader, will introduce new economic policy ideas to rectify the ills of the existing paradigm. Policy entrepreneurs are generally responsible for producing ideas, but it is the political entrepreneur who acts as a figurehead, introducing these ideas into the policy process. As Margaret Thatcher quipped to Ralph Harris of the Institute of Economic Affairs (IEA), when he claimed the IEA had been advocating market reform twenty years before her time, "Ralph, the cock may crow but it's the hen that lays the egg" (Wolf, 2006: 15). The triumph of a new idea depends upon "a workable new idea being available" which change agents are prepared to adopt and promote (Oliver and Pemberton, 2004: 419).

The final group of change agents are outside influences, encompassing the media, and international organizations, such as the OECD. They will critique an existing economic paradigm, advocating a new set of ideas as an alternative. These three broad groupings are similar to those identified by Pemberton in his schema of policy learning (2000: 777). He notes that while minor policy changes emanate from administrators,

significant changes are dominated by academics, economists, interest groups, the media and, in particular, politicians.

Greener sees an important role for exogenous shocks in securing the triumph of a new policy paradigm (2001: 134). However, we hypothesize that a macro-economic crisis is a necessary, but insufficient, condition for change in macro-economic policy. Instead, a macro-economic crisis will result in debate regarding the economy and the generation of new ideas. The consolidation of agents around a set of new ideas is crucial for policy change. This corresponds to McNamara's argument that actors utilize new ideas to chart new policy strategy (1998: 4–5). Consequently, the following observable implications seek to identify the generation of new economic ideas by agents.

- 01.** A clear change agent (political entrepreneur) to inject new ideas into the policy arena is apparent.
- 02.** Opposition political parties critique the current model and propose alternative economic ideas; at election time their platform will be built around these alternative ideas.
- 03.** Civil society organizations, such as labour unions, employer organizations, consumer groups, and so forth, critique the current model, reflecting Hall's coalition-centred approach (1989: 12).
- 04.** Policy entrepreneurs have developed a clear set of alternative economic ideas.
- 05.** Widespread public dissatisfaction with the current paradigm is observable through opinion polls, protests, and so forth.
- 06.** External or international organizations critique the current model and/or actively disseminate alternative economic ideas to replace it.
- 07.** The media question the efficacy of the current economic model and/or specific policy areas.

Should a broad range of agents agree that the prevailing paradigm is inadequate and should be replaced—the first stage of Legro's model of rapid ideational change (2000: 419)—collapse will have occurred. However, “even when ideational collapse occurs, failure to reach consensus on a replacement could still produce continuity, as society reflexively re-embraces the old orthodoxy” (Legro, 2000: 424). Walsh sees this as the continuation of failed policies due to a lack of coherent intellectual links between policy tools and desired outcomes (2006: 494).

Thus, in the wake of ideational collapse, the issue is reaching consensus on a new set of ideas. If consensus is achieved, it constitutes the second stage of Legro's model—consolidation—agents co-ordinating a replacement set of ideas to the reigning consensus. This can be seen in political entrepreneurs consolidating their innovations by combining a mixture of interests to produce a winning coalition (Sheingate, 2003: 192–93).

Extant ideas constitute the “armour” protecting policies. The greater the level of consensus encompassing an idea, the heavier the armour protecting the policies derived from it. Armoured policies represent continuity, whereby once a policy has become institutionally embedded, “policy making becomes possible only in terms of these ideas” (Blyth, 2001: 4). Referring to policies as armoured is similar to Golob’s notion of “policy frontiers” (2003: 363).

However, with the replacement of old ideas, the policies based upon them will have lost their armour protection. Pemberton argues that new ideas change the wider policy environment (2000: 790). Thus, we hypothesize that once there is consolidation around a new set of ideas, a significant change in policy should follow. In this regard ideational change will constitute the “differentiating factor” between crises that result in radical policy change and those that do not. Therefore, we must discover if radical changes in economic policy follow ideational change. Thus, we base our final set of observable implications upon the concepts of first-, second- and third-order changes in policy developed by Hall. Hall argued that policy failures and exogenous shocks can set off processes that lead to ideational change to the extent of resulting in the re-examination of the belief systems through which policy has been generated—a paradigmatic (third-order) policy change (1993: 291). These observables will enable us identify, and differentiate, both normal and fundamental shifts in a country’s macro-economic policies. However, the observables set out here also incorporate the ideas of swift and enduring change developed by Hogan (2005). As we are dealing with the idea of radical change we assume that this is not a long process; otherwise it would constitute incremental change. Also, if the change is to endure in a policy environment full of competing actors, policy entrepreneurs and policies in search of a home, it should survive for at least one change of government. Otherwise, the new policies will have proven themselves lacking armoured protection (institutional embedding) necessary for them to endure. As we are searching for paradigm shift in macro-economic policy this must encompass all three of the observables below.

- 01.** If economic policy instrument settings changed (swiftly, but lasting longer than one government’s term of office) there may have been a radical change in government economic policy.
- 02.** If the instruments of economic policy changed (swiftly, but lasting longer than one government’s term of office) there may have been a radical change in government economic policy.
- 03.** If the hierarchy of goals behind economic policy changed (swiftly, but lasting longer than one government’s term of office) there may have been a radical change in government economic policy.

*America 1979–1981*

By the end of Carter's administration the economy was in trouble. Paul Volcker, Federal Reserve Chairman, believed the remedy for spiralling inflation was a tightened money supply (Krugman, 1990), the first coherent move towards monetarist policy. However, the results were limited. The president's imposition of controls on consumer credit contributed to the economy's slide. Consequently, there was widespread dissatisfaction with, and critiques of, government policy.

Byron argued that Carter's decisions resulted in reduced in consumer borrowing and a steep decline in growth (1980a: 44). "Recession Hits Hard" headlined *The Washington Post* (Atkinson, 1980: L1). Economic commentators were pessimistic on the prospects for recovery. The economy was in what Walter Okun called "the great stagflation swamp" (Byron, 1980b: 17). The president's inflation record is not good admitted Walter Heller. In allowing the economy deteriorate, noted Alan Greenspan, Carter was forced into a crash program of restraint, leading to a huge rise in unemployment (Time International, 1980: 45). Critiques began to coalesce around a set of alternative ideas purporting to tackle current economic ills: monetarism. With agents in agreement on the inadequacy of the extant paradigm, ideational collapse had occurred.

Monetarist concepts had been present in American political circles since the early 1970s, with Milton Friedman, Robert Lucas and Arthur Laffer founding organizations like the American Enterprise Institute (Blyth, 1997: 236–37). These groups ensured that by the late 1970s American economic journalism propagated their ideas (Blyth, 1997: 237), with the *Wall Street Journal* acting as both "effective synthesizer and chief proselytizer for these ... ideas" (Blyth, 2002: 164). In this respect a clear set of alternative ideas and policy entrepreneurs were present.

However, it was Ronald Reagan, Republican presidential candidate, who embraced this new ideology, adopting the role of political entrepreneur. His message was lower taxes, reduced spending on social services, balanced budgets and fewer governmental regulations. He blamed the Democrats' inflationary policies for stifling productivity and bringing recession. In late August, Reagan stated that President Carter had "created a severe depression" (Kelly, 1980: 9). He promised new policies and leadership (Wayne, 1992: 182). During the final stages of the election Reagan declared Carter's record on inflation and unemployment "a failure on a scale so vast, in dimensions so broad, with effects so devastating, that it is virtually without parallel" (Church, 1980: 17). Reagan forged an electoral coalition around the notion of monetarism (Blyth, 1997) and won the election on the back of having a discernable set of alternative economic ideas which could replace existing arrangements. For the OECD, President Reagan's election, and the accompanying Con-

gressional election, was a clear mandate for conservative policies (1982: 10). In the wake of an economic crisis, and with the paradigm underlying extant economic policy collapsed, change agents reached consensus and consolidated around a new economic orthodoxy. Monetarism's acceptance as a viable alternative idea constituted ideational change.

The new administration's economic policies were very different from those of its predecessors in their political roots and theoretical foundations (OECD, 1982: 9). Reagan fashioned his economic strategy around Arthur Laffer's monetarist proposals. To combat stagflation he promoted a painless panacea: tax cuts, and deregulation, wherein the resulting stimulus would boost federal revenues to balance the budget, reducing inflationary pressure. The new president's program, dubbed Reaganomics, constituted the belief that American capitalism, freed from the burden of taxes and regulation, would surge ahead. Reagan's first budget proposed a \$750 billion tax cut over three years (Jones, 1995: 597). The administration also cut \$11 billion from public works and job training programs, unemployment benefits and trade adjustment assistance benefits (Brown, 1981: A1). According to the OECD "a trend towards reduced economic regulation was carried further by the immediate application of the remaining stages of crude oil price decontrol and the abolition of the Council on Wage and Price Stability" (1982: 24).

In political terms Reagan capitalized on anti-government sentiment, emphasizing individualism and a smaller Federal role. Tax relief was allied to a restructuring of federal expenditure, bringing sharp changes in the fiscal influence on the economy. Economic policy instrument settings, the instruments themselves and the goals behind economic policy, all changed. This third-order change (paradigm shift) in macro-economic policy endured into the administration of Reagan's successor. D'Souza saw Reagan's program for America as the most ambitious since the New Deal (1997: 85).

An economic crisis led to the collapse of the ideas underlying existing macro-economic policy. Policy and political entrepreneurs advocated a replacement set of ideas: monetarism. Consolidation around this new economic orthodoxy was achieved with Ronald Reagan. Following his election there was a third-order change (paradigm shift) in macro-economic policy. Thus, we have a macro-economic crisis, ideational change, and a radical change in macro-economic policy, which according to our overarching hypothesis constitutes a critical juncture in macro-economic policy.

#### *America 1990–1992*

The Bush administration was blamed for the recession of the early 1990s. The Gulf War, along with a range of domestic economic problems, left a



legacy of disastrous budget deficits. With national debt exceeding \$4 trillion, and huge interest repayments, artificially stimulating the economy was not an option (Mufson, 1992: A1).

The public had lost faith in the administration's ability to manage the economy. An August 1992 poll showed only 22 per cent of the public regarded President Bush as doing a good job (Morin and Schwartz, 1992: A1). A *Newsweek* poll the following month produced similar results (Levinson, 1992a: 40). *Time* argued that the Reagan/Bush administrations were largely responsible for the national debt. *The New York Times* stated that Bush had seriously mismanaged the economy (Passell, 1992: 2). However, when new taxes were levied, vicious criticism ensued. "Read My Lips: I Lied" proclaimed a *New York Post* headline (1990: 1). "Anxious about the economic future?" asked *Newsweek*, "if you aren't you should be," it warned (Levinson, 1992b: 44). Even the World Bank attacked Bush's economic management. World Bank chief Laurence Summers said, "The most important lesson of elementary economics America must learn is: deficit finance is not an alternate to cutting spending or raising taxes" (Greenhouse, 1992: A1). Confidence in extant economic ideas had collapsed.

The 1992 Democrat presidential nominee, Bill Clinton, attacked the administration for the economy's ills. Clinton pledged an activist government addressing the economy, jobs, and health care. His campaign focused on the recession, with the famous maxim: "the economy, stupid!" (Time International, 1992: 38). Although critiques of Bush's administration were rife, unlike the previous example, these debates did not coalesce around an alternative set of economic ideas. Clinton merely repackaged existing ideas. Without alternative ideas for agents to consolidate around, the result was continuity with the old economic orthodoxy. Clinton was elected on the back of Bush's unpopularity, with economic proposals aimed at rectifying Bush's errors, rather than changing economic policy. The ideas he espoused did not constitute an alternative economic paradigm nor were any significant change agents present.

Nevertheless, Clinton, determined to revive the economy, oversaw some changes in economic policy. He argued for a new economic program to put people back to work (Clinton, 1992: 46). Seeking to shed the Democratic Party's reputation for ultra-liberalism, and wasteful spending, Clinton sought to court middle class and blue-collar voters, who once composed the party's backbone, but, in so doing, he failed to bring about a third-order change (paradigm shift) in macro-economic policy.

The recession shaped much of Clinton's agenda. The OECD argued that his administration's economic strategy was built on the view that government could improve market outcomes and had greater scope for correcting market failures. "The zeal for deregulation has waned since the mid-1980s, and the government seems willing to turn to new regula-



tion to achieve its social objectives in an environment of budgetary stringency" (OECD, 1993: 117).

Rejecting the "trickle-down" approach of his predecessors, Clinton proposed revitalizing the economy through investment in infrastructure and education (French, 1997: 52). His 1993 economic program proposed spending cuts and tax increases, with a deficit reduction of \$325 billion over four years. One of the program's main components was a \$169 billion stimulus package. In August, Congress passed a five-year economic plan incorporating Clinton's spending cuts and tax increases, while gutting his stimulus package. The OECD argued that this deficit-reduction plan alleviated fiscal imbalances (1993: 113).

While the administration was committed to bringing down the deficit to ease the drain on national savings, it also showed a willingness to counter rising income inequality, secure faster job creation and support higher rates of investment. Although economic policy instrument settings, and the instruments themselves, may have changed, the hierarchy of goals behind economic policy did not. This constituted a second-order change in macro-economic policy.

The economic crisis witnessed the collapse of extant economic orthodoxy. However, change agents did not consolidate around a clear set of alternative economic ideas. The ideas underpinning the economic policies of the Regan/Bush years endured, providing them with a level of armoured protection sufficient to deflect unconsolidated ideational attack. There was no critical juncture in economic policy.

### *Sweden 1980–1982*

The recession of the 1970s saw the budget deficits supporting the welfare system deepen. By 1981 the non-socialist coalition government held only 102 of the 350 seats in the Riksdag (Swedish Politics, 2006). That autumn the krona was devalued by 10 per cent, and the following spring the government introduced far-reaching austerity measures. However, the opposition parties gained ground (Hadenius, 1997: 129–30). The government hoped its attempts to combat the economy's problems would generate respect for non-socialist policies; instead they generated widespread critiques, and initiated a debate on the economy. The *Financial Times* pointed out that the Swedes were nervous about the future but reluctant to see the welfare state's benefits reduced (Dullforce, 1982a: 15). "The welfare state is in a crisis of legitimacy," observed Hans Vetterberg, Sweden's leading public opinion analyst. "We can no longer afford to keep expanding it" (Osnos, 1982: A15). The Swedish Employers' Federation (SAF) was unhappy with the government. However, the non-socialist government wanted neither to raise taxes, nor dismantle the welfare state (Time International, 1982: 32). This situation, rife with unfulfilled eco-

conomic expectations and agents dissatisfied with the prevailing paradigm, constituted ideational collapse.

The 1982 election was regarded as determining whether public opinion had shifted, as in Norway and Denmark, away from social democracy. The election campaign was dominated by talk of economic crisis—a \$10 billion debt to foreign banks, inflation, declining exports and increasing unemployment (Osnos, 1982: A15). During the campaign the Social Democrats attacked the viability of another non-socialist government and their economic policies. The party presented a program on how Sweden could save and work its way out of crisis. The debates surrounding the election failed to generate either a coherent set of alternative economic ideas to replace existing ones or a significant change agent. Despite the dominant orthodoxy's failure, the non-socialist parties failed to create a coalition around alternative ideas to the welfare state, and nearly all economic ideas presented were variations on existing themes. Without consolidation around a new ideational orthodoxy agents reflexively re-embraced the old. In lieu of alternatives, the ideas underpinning the policies of the welfare state endured. The SAP won the election, not on the back of a new economic paradigm to cure the country's woes but on a series of proposals to rectify existing economic arrangements.

The result precipitated an altered approach to economic management, with minor changes in policies. The SAP, admitting there were no ready solutions to the economy's problems (Apple Jr., 1982: 3), implemented a recovery program: the Third Road. They argued that renewed growth required redistribution of income from labour to capital. It constituted a shift in SAP economic planning, behind which course lay the influence of its research unit, as opposed to those of the unions. This marked an attempt to maintain a level of social democracy, which other countries were rolling it back (Martin, 2000: 234). The Third Road sought to devise a wide-ranging stabilization program encompassing demand management measures, as well as initiatives to promote structural change and ensure an equitable distribution of the burden of adjustment (OECD, 1984: 21). The SAP was also determined to pour funds into job-creating industries.

The centrepiece of Finance Minister Feldt's strategy to boost corporate profits was devaluation of the krona. This measure was implemented, in conjunction with a price freeze and increases in sales and corporate taxes, in a sweeping "crisis plan" aimed at stimulating the economy (Dullforce, 1982b: 1; The Washington Post, 1982: A16). According to the OECD the objective was to achieve export-led, investment-driven, recovery (1984: 21). The *Landsorganisationen i Sverige* (LO) accommodated devaluation by demanding average wage increases of 2.5 per cent in ensuing wage bargaining. The devaluation and international economic recovery resulted in high earnings and excellent scope for export expansion

(Ahlén, 1989: 333). The government also restored welfare entitlements cut by the non-socialists (OECD, 1984: 23).

To maintain the welfare state by whatever means necessary the government prioritized private sector growth, profits and market forces. In this case, the economic policy instrument settings changed, but the instruments of economic policy, and the goals behind it, remained much the same: maintenance of the welfare state. This constituted a first-order policy change.

The economic crisis in Sweden generated significant debate and a form of ideational collapse occurred. However, change agents did not consolidate around a replacement economic orthodoxy. The extant economic paradigm endured, providing the existing economic policies with sufficient armoured protection to remain largely intact. There was no critical juncture in economic policy.

### *Sweden 1990–1992*

Sweden's economic crisis in the early 1990s provided a window of opportunity for monetarist ideas. Following the SAP's election in 1982, a number of agents began coalescing around these ideas. The SAF created the Centre for Business and Policy Studies (SNS) and Timbro to disseminate monetarist ideas, which gained ground, especially among influential economists (Blyth 2002: 214–15). Political and policy entrepreneurs, consisting of the leaderships of the Conservative and Liberal parties, the policy elites outside the original social bargain, and the SNS and SAF began aggressively propagating these ideas (Blyth, 1997: 239).

Meanwhile, the media continued to harangue the SAP government, and its policy failures. *The New York Times* stated that the economy was stagnant (Prokesch, 1991: 1). The *Financial Times* pointed out that in 1991, under the impact of weak foreign demand and losses in competitiveness, Swedish exporters lost ground internationally (Taylor, 1991a: v). The *Washington Post* argued that Swedes were troubled by the country's slow growth and their inability to maintain the standard of living they were accustomed to (1991: A18).

Once the economy entered freefall, critiques of the SAP's policies by the media, the opposition, and the OECD, enabled change agents to propose monetarism as an alternative economic paradigm. In an environment of unfulfilled economic expectations, contestation of the existing economic orthodoxy by agents, agreed on its inadequacy and need for replacement, resulted in its collapse. From the mid-1980s onwards the SAF, among others, increasingly called into question the corporatist system (de Geer, 1992: 155–57). The SAF assumed the role of a vigorous policy entrepreneur, mounting intense publicity campaigns to improve the electoral prospects of the Liberal and Conservative parties. The SAF's

ideas on privatization, and deregulation, also influenced the SAP government which, to combat the crisis, began incorporating monetarist ideas into policy. In 1990 currency outflows prompted the Riksbank to increase interest rates (Agence France Presse, 1991: 8). To reduce inflation, the government tightened fiscal policy (OECD, 1992: 11), a significant change in macro-economic policy for an SAP government that previously gave priority to high employment. As the economy depended on tight fiscal and monetary policies, this meant keeping inflation at the European level, even at the cost of unemployment, something previously unacceptable (Taylor, 1991a: v). The January 1991 budget highlighted the consolidation of monetarist ideas, as low inflation became the objective of economic policy (OECD, 1992: 39).

The internationalization of financial markets restricted the ability of the government to pursue economic policies diverging from those of other capitalist states, forming a “cognitive lock” (Blyth, 2002). Policies disapproved of by industrialists (and foreign currency dealers) became increasingly difficult to implement (Marshall, 1996: 9).

The 1991 election saw the opposition parties reach consensus around monetarist ideas, a coherent set of alternative theories to rectify the economy. Following the election, Carl Bildt, leader of the Moderate Party, formed a four-party government advocating a switch to monetarism. The *Financial Times* observed that “Swedish politics have reached the end of the social democratic era” (Taylor, 1991b: 3). Bildt summed up the result as “a massive mandate for change” (Taylor, 1991b: 3). Thus, following an economic crisis, a range of agents consolidated around a new set of economic ideas to replace those that had collapsed. As the orthodoxy underpinning existing policies was replaced, these policies lost the ideational armour that had protected them from change. Sweden had accepted the idea of an alternative economic paradigm.

The coalition government sought to fundamentally change the economy’s structure. To right the economy, it slashed the role of the state, selling its shares in 34 companies, with a value of SKr250 billion (Investors Chronicle, 1991: 68; European Report, 1991: 1; The Economist, 1991: 62). In limiting how far state responsibility should extend, Carl Bildt challenged the conventional wisdom since the 1930s (Taylor, 1991c: 2). According to the OECD (1992: 44) a central element of the new economic program was reduced taxes, matched to reduced spending, to encourage efficiency. Competitive forces were given a greater role in allocating resources in the economy (OECD, 1992: 40). The new administration reduced the benefits system, and began abolishing the employee investment funds, using their resources to support the development of companies (Whitney, 1991: 11; Hadenius, 1997: 153). This change reflected concerns that the expansion of the public sector involved high costs in lost economic dynamism and had undermined Sweden’s growth

prospects. In seeking to change Sweden from social democracy to a more free market economy, this government achieved more in its first six weeks in office than any previous non-socialist administration.

Economic crisis led to the collapse of the dominant economic orthodoxy. The SAF, acting as a policy entrepreneur, introduced monetarist economic ideas, around which consensus developed, leading to their consolidation. Following the SAP's electoral defeat advocates of monetarism set about changing the setting, instruments, and hierarchy of goals behind economic policy, constituting a third-order change (paradigm shift) in macro-economic policy. This change in macro-economic policy, preceded by macro-economic crisis and ideational change, constituted a critical juncture.

Of the four macro-economic crises examined, two (America 1979–1981; Sweden 1990–1992) witnessed third-order changes (paradigm shifts) in macro-economic policy. We can see from the case studies that these third-order policy changes occurred following the collapse of the dominant economic orthodoxies, the introduction of new ideas into the policy arenas, and the subsequent consolidation of change agents around these ideas. The other two macro-economic crises (Sweden 1980–1982; America 1990–1992) did not witness third-order changes in macro-

TABLE 2  
The Identification of Ideational Change

| Observable Implications   | America       |               | Sweden        |               |
|---|---------------|---------------|---------------|---------------|
|   | 1979–<br>1981 | 1990–<br>1992 | 1980–<br>1982 | 1990–<br>1992 |
| <b>01.</b> A clear change agent (political entrepreneur) to inject new ideas into the policy arena is apparent.   | X             |               |               | X             |
| <b>02.</b> Opposition parties critique current model and propose alternative economic ideas; at elections their platforms are built around these ideas. | X             |               |               | X             |
| <b>03.</b> Civil society organizations critique current model, reflecting Hall's coalition-centred approach.  | X             | X             |               | X             |
| <b>04.</b> A clear set of alternative economic ideas are evident.   | X             |               |               | X             |
| <b>05.</b> Widespread public dissatisfaction with current paradigm, is observable through opinion polls, protests etc.                                  |               |               | X             | X             |
| <b>06.</b> External/international organizations critique current model and/or actively disseminate alternative economic ideas.                          | X             | X             | X             | X             |
| <b>07.</b> Media question efficacy of current economic model and/or specific policy areas.  | X             | X             | X             | X             |
| <b>Ideational Consolidation</b>   | <b>X</b>      |               |               | <b>X</b>      |

TABLE 3

The Identification of Change in Government Economic Policy

| Observable Implications  | America       |               | Sweden        |               |
|--|---------------|---------------|---------------|---------------|
|  | 1979–<br>1981 | 1990–<br>1992 | 1980–<br>1982 | 1990–<br>1992 |
| <b>O1.</b> If economic policy instrument settings changed, there may have been a radical change in economic policy.                      | X             | X             | X             | X             |
| <b>O2.</b> If the instruments of economic policy changed, there may have been radical change in government economic policy.              | X             | X             |               | X             |
| <b>O3.</b> If the hierarchy of goals behind economic policy changed, there may have been a radical change in government economic policy. | X             |               |               | X             |
| <b>Critical Juncture in Macroeconomic Policy</b>   | <b>X</b>      |               |               | <b>X</b>      |

economic policy. Although ideational collapse occurred in both cases, change agents did not consolidate around replacement economic orthodoxies. Consequently, the hierarchy of goals behind existing macro-economic policy did not change.

The findings validate our hypothesis. A critical juncture in macro-economic policy consists of three stages: macro-economic crisis, ideational change and radical policy change. The findings show that a macro-economic crisis is a necessary, but not sufficient, condition for a paradigm shift in macro-economic policy. A macro-economic crisis not followed by ideational change will at most lead to a first- or second-order macro-economic policy change (Sweden 1980–1982; America 1990–1992), whereas a macro-economic crisis followed by ideational change (collapse and consolidation) will witness a third-order change (paradigm shift) in macro-economic policy (America 1979–1981; Sweden 1990–1992).

Thus, when examining the degree of macro-economic policy change in the wake of a macro-economic crisis, ideas occupy a central, and dichotomous, position. The extant ideational orthodoxy provides the armour protecting existing macro-economic policy, ensuring continuity. However, should ideational collapse occur, then the existing macro-economic policy is no longer armoured. If change agents subsequently consolidate around a new set of economic ideas the result will be ideational change, and a third-order change in macro-economic policy. However, if these agents fail to consolidate around a new economic orthodoxy, extant ideas will endure, ensuring a first- or second-order policy change at most. Therefore, ideational change clearly constitutes the “differentiating factor” between an economic crisis that leads to a paradigm shift in macro-economic policy and one that does not.

## Conclusion

As political science is continuously seeking better tools with which to make sense of change, any new, or revised, instrument should be welcomed. This paper seeks to develop an improved framework, incorporating an *a priori* element, for examining critical junctures. We hypothesize that a critical juncture in macro-economic policy consists of macro-economic crisis, ideational change and radical policy change. Of the case studies examined, America 1979–1981 and Sweden 1990–1992 fulfilled all three stages. In both cases the ideational foundations of existing macro-economic policy collapsed in the wake of economic crises and were replaced as change agents consolidated around new economic orthodoxies. Third-order macro-economic policy change, paradigm shift, followed ideational change. America 1959–1961 was merely an economic downturn, but Sweden 1980–1982 and America 1990–1992 constituted economic crises. While ideational collapse occurred in both cases, change agents did not consolidate around viable alternative ideas and, in the absence of ideational change, there was only minor macro-economic policy change.

We conclude that during a macro-economic crisis, ideational change is the key component leading to third-order change in macro-economic policy. Established policies, and the armoured protection afforded by their underpinning ideas, having been brought into question by previous failures, are liable to be overcome by change agents consolidating around new ideas (America 1979–1981; Sweden 1990–1992). In the absence of ideational change, the level of policy change, in response to a macro-economic crisis, will be either of the first- or second-order, but not the third. Thus, economic policy instrument settings and the instruments themselves may change, but without ideational change the hierarchy of goals underpinning macro-economic policy will remain unaltered (Sweden 1980–1982; America 1990–1992). Ideational change constitutes the differentiating factor between those macro-economic crises that are followed by a third-order change (paradigm shift) in macro-economic policy and those that are not. Following a macro-economic crisis, the presence, or absence, of ideational change should enable us predict if there will be a third-order change in macro-economic policy and consequently a critical juncture.

This paper draws upon crisis, ideational and institutional literature to forge a rigorous framework capable not only of analyzing macro-economic policy change, but other policy change also. The framework, with minor modifications, could be utilized to predict policy outcomes in such fields as foreign policy, democratization, gender mainstreaming, as well as social and/or environmental policy. Testing the framework in these policy areas should either validate and improve it or falsify it. By



incorporating a predictive element—the differentiating factor—into the concept of critical junctures the framework breaks new ground. Researchers, having identified a crisis (of whatever kind), and ideational change, should be able to predict that a third-order policy change, a paradigm shift, is coming, or if it has taken place, that the event constitutes a critical juncture. Researchers will no longer have to wait years to be able to declare an event a critical juncture. The predictive element broadens the concept's applicability, deepens its incisiveness, and contributes to a better understanding of policy change.

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